Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 15 May

Oxbow Partners Coronavirus Coverage

We have introduced a weekly note consolidating all Coronavirus-related news relevant to the UK insurance industry. This will be published on Friday mornings for the foreseeable future. Click here to sign up to the mailing list.

15 May 2020

Summary

- FCA issues guidance for insurers regarding customers in financial difficulty
- Lloyd's estimates COVID-19 could cost the insurance industry $203bn
- Could insurer auto discounts be backfiring? (Insurance business)
- UK motor claims down 80% in mid-April (Willis Towers Watson)
- Britain was on the move before lockdown was eased (FT)
- UK Government to step in as trade credit reinsurer
- The top 100 insurance brands could lose £100bn in brand value due to COVID-19 (CityAm)
- Lloyd's underwriting room may never be the same again (FT)
- Zurich sees potential COVID-19 claims to reach $750m in 2020
- Allianz results hit by €700m of COVID losses in Q1 2020
- Airmic urges the insurance market to adopt a more reasonable position or risk long-term damage to trust
- US Treasury Department is opposed to the forced payment of BI claims (Artemis)

Analysis

Lockdown let up

This week we have seen the first relaxation of some of the lockdown rules in England. The new rules seem to be vague enough for most people to interpret them in different ways, though the fact that golf courses are opening again has not slipped past the attention of many. For the insurance industry, increased activity means a potential uptick in motor claims though it looks like this was already taking place before any change in the rules. Lockdown fatigue seems to have taken around a month to set in, with vehicle activity rising towards the end of April and into May.

The Oxbow Partners View

The motor insurers are in the spotlight again this week with the FCA issuing new guidance for how customers need to be treated fairly and falling just short of telling insurers to give premiums back. At the same time, evidence from the US experience shows offering premium rebates to customers has actually increased their propensity to shop around or cancel their policies suggesting the provision of refunds is not the positive retention tool it may have appeared. The motor insurance sector has had a relatively good crisis so far but it may just be that the impact was delayed as things get moving again. Stay safe out there.

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Registered number: 09863607
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FCA issues guidance for insurers regarding customers in financial difficulty

The FCA has set out new guidance which requires firms to pay due regard to the interests of their customers and treat them fairly. The guidance is specifically focused on customers who are facing temporary financial difficulty due to the coronavirus pandemic and how the regulator expects insurers to treat them. The new rules come into force from Monday 18 May.

The guidance sets out when firms should act to support customers, in particular where a customer contacts their insurer because they are having difficulty making payments or wish to reduce cover. Additionally, if customers miss payments, this could indicate they are in financial difficulty and insurers should consider actions to support them.

The FCA specifically stipulates that insurers should not (for those facing financial difficulty) charge cancellation fees and should offer payment deferrals of one to three months where this is appropriate given the customers' premium finance arrangements. The guidance will be reviewed in three months.

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Lloyd's estimates COVID-19 could cost the insurance industry $203bn

Lloyd's has undertaken an economic study of the potential losses from COVID-19 across the insurance industry and estimates the total cost will be $203bn. This includes $107bn of claims and $96bn of investment portfolio losses. Within the claims estimate, Lloyd's expects the London market to pay out between $3bn and $4.3bn, a figure on par with the 9/11 terrorist attacks and the combined impact of hurricanes Harvey, Irma and Maria in 2017.

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Could insurer auto discounts be backfiring? (Insurance business)

A new study from J.D. Power in the US has found that the reaction of customers to the $10bn in premium discounts given out by motor insurers is not promoting customer loyalty and is instead prompting customers to shop around. The study found that 37% of respondents were not even aware of the discounts being offered and 50% were more likely to shop for new insurance, switch or cancel their policies. 57% believe that the discounts are not enough and are taking matters into their own hands to reduce insurance costs during the crisis. The survey suggested that once customers were aware of the discounts, they were nearly twice as likely to shop around for insurance. Not all coverages are seeing declines, however, with usage-based insurance three times more popular with customers than before the crisis.

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UK motor claims down 80% in mid-April (Willis Towers Watson)

Willis Towers Watson has teamed up with Audatex to analyse the effect of COVID-19 on the UK motor repair network. The study found that by mid-April the number of new work instructions being sent to repair body shops had fallen by 80% compared to the first quarter of the year. While the number of claims is down, the cost of repairs has been increasing with the average repair cost consistently above £2,000 versus the pre-crisis average of £1,850. Audatex data suggests that the increased cost is related to the fact that the non-drivable cars with significant, expensive damage have been prioritised for mending. Interestingly the time taken to get cars back on the road is much faster than pre-crisis with the key-to-key time falling from 10 days to 5 days.

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Britain was on the move before lockdown was eased (FT)

The FT reported on research by University College London showing that activity in Britain has been increasing, even before the relaxation of lockdown rules signalled by the Prime Minister on Sunday. The research suggests that lockdown fatigue may have been having an effect with some areas of the country seeing activity levels rising to as much as 70% of pre-lockdown. This could signal a return to more normalised motor insurance claims levels significantly ahead of any substantial return to 'normal' life.

Read more (requires FT subscription)

UK Government to step in as trade credit reinsurer

The UK Treasury announced this week that it will temporarily guarantee business-to-business transactions currently supported by Trade Credit Insurance. The government is concerned that the economy needs to get started again and the lack of trade credit insurance could stall the recovery. The guarantee will come in the form of reinsurance for those companies currently operating in the trade credit space and will provisionally last until the end of the year.

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The top 100 insurance brands could lose £100bn in brand value due to COVID-19 (CityAm)

Brand Finance has forecast that the world's 100 most valuable insurance brands could lose $100bn or 20% of their value as a result of the COVID-19 crisis. The insurance industry is likely to be one of the worst affected sectors. Brand Finance believe that the refusal to pay out on coronavirus-related claims could anger customers and reduce the value of the brand.

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Lloyd's underwriting room may never be the same again (FT)

The FT reported this week that Lloyd's of London, one of the last bastions of face-to-face insurance may never be the same again as there is an opportunity to embrace the more digital way of working that has been forced in as part of the crisis. The PPL platform that was not well received by all insurers and brokers when it was first launched in 2016 has become the method of choice for transacting business with almost 3,500 polices per week being written through the system, up from around 970 pre-crisis.

Read more (requires FT subscription)

Zurich sees potential COVID-19 claims to reach $750m in 2020

Zurich reported its Q1 2020 results this week describing the performance in the first quarter as 'solid'. Rates have increased in the P&C business with particularly strong growth in the US where rates have increased 12%. Zurich has committed over $70m to supporting customers during the crisis and Farmers has reduced premiums and provided credits of around $300m. Overall, the group expects the cost of COVID-19 related claims to be $750m for 2020, though this is clearly only an estimate at this stage. The group solvency position has been significantly impacted by the financial market turmoil with Zurich's own Z-ECM ratio falling from 129% at the end of 2019 to 101% as at Q1 2020 – only just within the target range of 100-120%.

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Allianz results hit by €700m of COVID losses in Q1 2020

Allianz's Q1 trading update revealed the group's operating profits declined -22% year-on-year, predominantly due to COVID-19 impacts which caused €400m of losses in its P&C business and €300m of losses in L&H. The decline in operating profit was predominantly due to a lower underwriting result in its P&C business (€500m decline), while its Life and Health business was impacted by capital market turbulences. The group has withdrawn its operating profit target for 2020. More widely, the group's solvency ratio dropped -23p.p. to 190% over the period as market impacts reduced capital by -€7.9bn (-28p.p. impact).

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Airmic urges the insurance market to adopt a more reasonable position or risk long-term damage to trust

The UK association for risk and insurance professionals has urged the insurance market to adopt a more responsible and business sensitive position on the COVID-19 pandemic with regards to claims and renewals, or risk long-term damage to customer trust. In a statement, Airmac believes, "[Insurers] can either interpret ambiguous contract wordings with their balance sheet in mind, or they can act as partners to long-standing customers who seek business protection". The association went further to call for a range of changes including avoidance of sudden policy changes, flexibility in cover, rebates where appropriate, and increased use of parametric tools in BI cover.

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US Treasury Department is opposed to the forced payment of BI claims (Artemis)

Leaked documents from the United States Treasury show it is opposed to legislative moves that could force retroactive COVID-19 related business interruption claims onto the insurance and reinsurance industry. This may relieve (re)insurers that forced BI claims may not be a political issue. Letters sent to lawmakers from the Office of Legislative Affairs at the U.S. Treasury state the department believe that moves to force BI claims into insurance and reinsurance markets "fundamentally conflict with the contractual nature of insurance obligations and could introduce stability risks to the industry."

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